

# Material Weaknesses

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# Definition of Material Weakness

- ✓ **A material weakness is a management control deficiency that is serious enough for us to consider material and report to the next level of command.**



# **Definition of a Management Control**

- ✓ **Integral component of an organization's management.**
- ✓ **Provides reasonable assurance that we are achieving the following objectives:**
  - **Effectiveness and efficiency of operations.**
  - **Reliability of financial reporting.**
  - **Compliance with applicable laws and regulations.**



# **Material Weakness Conditions**

## **First Condition**

**Absence or noncompliance with a control.**

## **Second Condition**

**The next level of management should be made aware either because that next level must take action or because it must be aware of the problem.**



# **Not a Material Weakness**

- ✓ **It is not a shortage of:**
  - **Human resources**
  - **Financial resources**
  - **Other resources (inadequate computer systems, etc.)**
- ✓ **Rather ask ourselves what will happen if we do not have these resources.**



# Identifying Material Weaknesses

- ✓ **Management Oversight/Knowledge**
- ✓ **Management Control Evaluations**
- ✓ **Audits, Inspections, Reviews**



# **Factors To Consider for Next Level Reporting**

- ✓ **Actual or potential loss of resources.**
- ✓ **Sensitivity of the resources.**
- ✓ **Magnitude of funds, property or other resources.**
- ✓ **Actual or potential frequency of loss.**
- ✓ **Media interest (adverse publicity).**
- ✓ **Congressional interest (adverse publicity)**



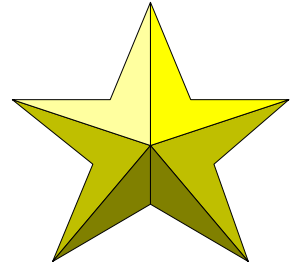
# **Factors To Consider for Next Level Reporting**

- ✓ **Unreliable information causing unsound decisions.**
- ✓ **Diminished credibility or reputation of management.**
- ✓ **Impaired mission fulfillment.**
- ✓ **Information security risk.**
- ✓ **Deprived public of necessary services.**

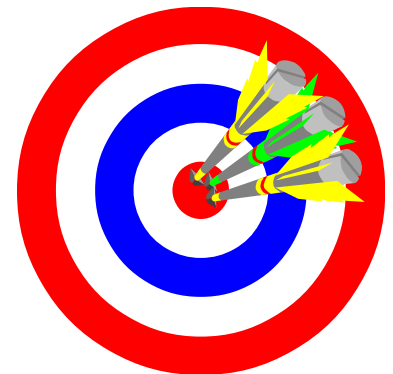




# **No Disadvantages to Reporting Material Weaknesses**



- ✓ **Shows proactive desire to inform higher headquarters.**
- ✓ **Prevents audit findings.**
- ✓ **Meets or exceeds Management Control Performance Objective.**





# **DOD Systematic Material Weaknesses**

- ✓ **Financial Management Systems and Processes.**
- ✓ **Environmental Liability.**
- ✓ **Munitions and Explosives.**
- ✓ **Contracting for Services.**
- ✓ **Government Card Program Management.**
- ✓ **Information Assurance.**
- ✓ **Personnel Security Investigation Program.**
- ✓ **Management of Real Property (Facilities).**



# **Army-Level Material Weakness Example**

**Title: Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS)**

**Description: Army contracting offices use SPS to write contracts while DFAS use CAPS to process contract payment information. The Army is experiencing numerous problems in getting these systems to work together effectively.**



# **Army Material Command (AMC)-Level Material Weakness Example**

**Title: AMC World Wide Web  
(WWW) Use and Vulnerabilities**

**Description: Use of WWW has innate insecurities, just as crossing a superhighway has inherent dangers. These risks cannot be eliminated. Actions can be taken to lessen the risks while gaining advantages.**



# **ASC-Level Material Weakness Example**

**Title: AMSFS-06-01, Financial Control of Class IX Repair Parts Requisition Procedures at Forward Repair Activities**

**Description: Forward Repair Activities (FRAs) provide maintenance support in Theater for both field level and national level repair work. The supply and financial systems in this environment do not adequately control funds. Without these systemic controls, off-line management controls must be put in place. Current management controls do not timely or completely provide the status of requisitions or associated funding. We will coordinate development of automated monthly financial reports with the Logistics Support Agency (LOGSA) and Army Electronic Product Support (AEPS).**



# **Material Weakness Reporting Guidance**

- ✓ **Material Weakness Format.**
- ✓ **Material Weakness Categories.**
- ✓ **Each Material Weakness must include a plan of corrective action (with milestones).**
- ✓ **Validation Step: Last step in corrective action plan.**



# **Material Weakness Validation**

- ✓ **Last milestone in corrective action plan is the validation step.**
- ✓ **Internal review auditor or an independent third party does validation.**
- ✓ **Validates that corrective actions have taken place and that weakness is corrected.**
- ✓ **Weakness can be closed if it is overcome by events (OBE) .**



# **Material Weakness Tracking**

- ✓ **We must follow up and track material weaknesses.**
- ✓ **The MCA and material weakness functional POC are responsible for the tracking.**